

## Message Text

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ACTION EUR-25

INFO OCT-01 IO-12 ADP-00 CIAE-00 DODE-00 PM-09 H-02 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

AID-20 CEA-02 COME-00 EB-11 FRB-02 CIEP-02 STR-08

TRSE-00 LAB-06 SIL-01 OMB-01 AGR-20 RSR-01 /178 W

----- 106937

R 181720 Z APR 73

FM USMISSION BRUSSELS

TO SECSTATE WASHDC 5078

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THEHAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION GENEVA

USMISSION OECD PARIS UNN

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PASS TREASURY, FRB AND CEA

E. O. 11652: NA

TAGS: EFIN, EEC

SUBJ: COMMISSION PAPER ON THE SECOND STAGE  
OF ECONOMIC AND MONETARY UNION

1. SUMMARY. ACCORDING TO EC COMMISSION OFFICIALS,  
THE COMMISSION DRAFT ON THE SECOND STAGE OF ECONOMIC  
AND MONETARY UNION WILL NOTE IN ITS FIRST SECTION  
THAT, OWING TO A NUMBER OF CONSTRAINTS, THE FIRST  
STAGE HAS NOT BEEN FULFILLED AND THAT THE SECOND  
STAGE, WHICH WILL LAST THROUGH 1976, SHOULD BE ONE  
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OF TRANSITION AND CONSOLIDATION. A SECOND SECTION WILL  
SUGGEST STRENGTHENED FISCAL AND MONETARY COORDINATION,

WITH MORE COMMUNITY- LEVEL INSTRUMENTS, TOGETHER WITH CERTAIN COMMUNITY- WIDE STRUCTURAL MEASURES WITH RESPECT TO REGIONAL POLICY AND, POSSIBLY, INCOME GUARANTEES AND UNEMPLOYMENT COMPENSATION. A THIRD SECTION WILL DEAL WITH INSTITUTIONAL REFORM AND STRESS A GREATER ROLE FOR THE EUROPEAN PARLIAMENT IN COMMUNITY POLICY. ACCORDING TO LOCAL PRESS STORIES, WHICH ONE COMMISSION SOURCE SAYS ARE SUBSTANTIALLY CORRECT, THE COMMISSIONER RESPONSIBLE FOR INDUSTRIAL POLICY, ALTIERO SPINELLI, BELIEVES THE DRAFT IS TOO UNAMBITIOUS AND SHOULD LAY THE FOUNDATIONS FOR FULL LEGISLATIVE AND BUDGETARY CONTROL BY THE EUROPEAN PARLIAMENT. END SUMMARY.

2. COMMISSION OFFICIALS HAVE GIVEN US A PRELIMINARY BRIEFING ON THE DRAFT PAPER, SCHEDULED FOR SUBMISSION TO THE EC COUNCIL BY THE BEGINNING OF MAY, ON THE SECOND STAGE OF ECONOMIC AND MONETARY UNION, THIS PAPER WAS REQUESTED BY THE EUROPEAN SUMMIT IN OCTOBER, 1972. THE OFFICIALS STRESS THAT THE PAPER IS NOT YET IN FINAL FORM, HAS NOT YET BEEN APPROVED BY THE MEMBERS OF THE COMMISSION, AND MAY UNDERGO CHANGES BEFORE SUCH APPROVAL.

3. THE PAPER IS IN THREE SECTIONS. THE FIRST MENTIONS SOME OF THE CONSTRAINTS THAT HAVE PREVENTED FULFILLMENT OF THE FIRST STAGE AS ENVISAGED BY THE WERNER REPORT. A PRINCIPAL CONSTRAINT HAS BEEN THE MONETARY UNREST THAT CHARACTERIZED THE FIRST PHASE AS WELL AS A LACK OF INSTITUTIONAL PROGRESS. THE PAPER'S AUTHORS SEE THE SECOND STAGE, TO LAST THROUGH 1976, AS ONE OF TRANSITION AND CONSOLIDATION RATHER THAN AN ENTIRELY NEW STAGE.

4. A SECOND SECTION OF THE PAPER DEALS WITH THE BASIC FEATURES OF AN ACTION PROGRAM UNDER TWO HEADINGS, THE FIRST DEMAND MANAGEMENT AND THE SECOND STRUCTURAL POLICY. UNDER DEMAND MANAGEMENT, THE PAPER ENVISAGES STRENGTHENED COORDINATION OF FISCAL POLICY AT THE COMMUNITY LEVEL. GUIDELINES WOULD BE ESTABLISHED AS LIMITED OFFICIAL USE

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IN THE PAST BUT WOULD CARRY MORE WEIGHT. MEMBER STATES SHOULD HAVE AVAILABLE AN ARSENAL OF FISCAL MEASURES, INCLUDING A RESERVE BUDGET FOR SHORT- TERM POLICY THAT WOULD BE USED BY DECISION OF THE COUNCIL. A HIGH- LEVEL MANAGEMENT COMMITTEE (COMITE DE GESTION) MIGHT BE ENVISAGED THAT WOULD APPROVE FISCAL ACTION OF MEMBER STATES BY MAJORITY VOTE WITH REFERRAL TO THE COUNCIL UPON REQUEST BY ONE MEMBER STATE. ( FYI: OUR SOURCES

TELL US THIS PROPOSAL IS UNLIKELY TO BE APPROVED BY THE COMMISSION. END FYI.)

5. ON THE MONETARY SIDE OF DEMAND MANGEMENT, WHILE VAGUE MENTION IS MADE OF EVENTUAL NARROWING OF MARGINS SHOULD CONDITIONS PERMIT, THE 2.25 PERCENT COMMUNITY BAND WOULD BE MAINTAINED. THE MONETARY COOPERATION FUND WOULD BE GIVEN GREATER RESPONSIBILITIES. PRECISE PROPOSALS ON MONETARY POLICY MEASURES ARE NOT IN THE PAPER AS THEY WILL BE COVERED BY THE COMMISSION' S REPORT DUE JUNE 30 ON PARTIAL RESERVE POOLING AND SHORT- TERM MONETARY SUPPORT.

6. IN THE AREA OF STRUCTURAL POLICY, AN EXPANDED ROLE FOR THE EUROPEAN REGIONAL FUND, SOME SORT OF MINIMUM INCOME GUARANTEE, AND AN UNEMPLOYMENT COMPENSATION SCHEME MIGHT BE ENVISAGED AT THE COMMUNITY LEVEL. WE UNDERSTAND THESE PROPOSALS GO BEYOND THE SIMPLE ESTABLISHMENT OF STANDARDS TO BE OVSRVED BY THE MEMBER STATES AND COULD EVEN INVOLVE SOME TRANSFERS FROM THE RICHER TO THE POORER STATES. OUR SOURCES TELL US, HOWEVER, THAT ANY PROPOSALS INVLOVING FISCAL TRANSFER COULD WELL BE KNOCKED OUT OF THE FINAL VERSION ON THE GROUNDS THAT THE MEMBER STATES ARE CERTAIN TO OPPOSE THEM.

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7. THE LAST SECTION OF THE PAPER DEALS WITH INSTITUTIONAL QUESTIONS IN THE LIGHT OF THE RESPONSIBILITIES AND COMPETENCES OF THE COMMUNITY, THE EFFECTIVENESS AND SPEED OF COMMUNITY ACTION, AND THE ROLE THEREIN OF THE EUROPEAN PARLIAMENT. THE PROPOSALS FORESEE A GREATER ROLE FOR THE PARLIAMENT IN THE FORMULATION AND APPROVAL OF COMMUNITY POLICY. FOR EXAMPLE, IN CERTAIN CIRCUMSTANCES THERE WOULD BE A SECOND READING BY THE PARLIAMENT OF MEASURES APPROVED BY THE COUNCIL -- ALONG THE LINES OF THE PARLIAMENTARY PROCEDURES OF THE BRITISH HOUSE OF LORDS.

8. OUR SOURCES TELL US THE PAPER IS NOT MEANT TO BE LIMITED OFFICIAL USE

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A DETAILED BLUEPRINT FOR THE SECOND STAGE OF ECONOMIC AND MONETARY UNION BUT RATHER A MORE MODEST APPROACH THAT, WHILE CONTAINING SOME SPECIFIC THOUGH UNELABORATED PROPOSALS, PROVIDES A BROAD BRUSH SKETCH OF THE DIRECTION IN WHICH THE COMMISSION WISHES TO MOVE. A POSSIBLE CONCLUSION OF THE PAPER WILL EMPHASIZE THE IMPORTANCE OF COMMON POLICY INSTRUMENTS AND STRESS THAT THE STEP-BY-STEP REALIZATION OF ECONOMIC AND MONETARY UNION IS THE ESSENTIAL BASIS FOR FUTURE PROGRESS IN OTHER AREAS OF INTERNAL AND EXTERNAL POLICY AND THAT THE COMMUNITY MUST SPEAK WITH ONE VOICE IF IT IS TO BE HEARD IN NEGOTIATIONS ON INTERNATIONAL MONETARY REFORM AND LIBERALIZATION OF WORLD TRADE.

9. IN THE LAST TWO DAYS, REPORTS HAVE APPEARED IN THE PRESS HERE SAYING THAT ALTIERO SPINELLI, THE EC COMMISSIONER RESPONSIBLE FOR INDUSTRIAL POLICY, CONSIDERS THE CURRENT COMMISSION DRAFT FAR TOO UNAMBITIOUS. HE IS SAID TO BELIEVE THE PAPER SHOULD LAY THE FOUNDATIONS FOR RADICAL REFORM OF EC INSTITUTIONS. WITH THE EUROPEAN PARLIAMENT BEING GIVEN A SUSPENSIVE VETO OVER COUNCIL DECISIONS AS A FIRST STEP AND EVENTUALLY ACQUIRING FULL LEGISLATIVE CONTROL OVER OTHER EC INSTITUTIONS. ONE COMMISSION OFFICIAL HAS TOLD US THE PRESS REPORTS, THOUGH SUBSTANTIALLY CORRECT, ARE MISLEADING AS TO THE MANNER IN WHICH SPINELLI PRESENTED HIS IDEAS. IN ANY CASE, OUR CONTACTS TELL US THERE IS CONSIDERABLE SENTIMENT WITHIN THE COMMISSION, INCLUDING

PRESIDENT ORTOLI, FOR A PROPOSAL THAT, MEASURED AGAINST THE  
MEAGER PROGRESS OF THE FIRST STAGE AND THE LIKELY  
ACCOMPLISHMENTS OF THE SECOND, AVOIDS UNREALISTIC  
PROPOSALS THAT ARE CERTAIN TO BE REJECTED BY AT  
LEAST SOME OF THE MEMBER STATES.  
GREENWALD

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**To:** STATE INFO BONN  
BRUSSELS  
COPENHAGEN  
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THEHAGUE  
LONDON  
LUXEMBOURG

PARIS  
ROME  
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